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Is Supply-Demand Dead?

Address by Levi A. Powell, Sr., Chief, Horticultural and Special Crops Branch, MED, before the 11th National Bargaining Conference, January 19, 1967, New Orleans, La.

If for no other reason than to limit the scope of discussional possibilities, I must take the negative side of this question. Suppose I had done otherwise? Then admissible arguments would have been without bound and the whole issue of price determinations for the produce of agriculture completely open-ended. Claims that prices are determined capriciously or arbitrarily could vie for equal attention alongside other lines of argument. But this would not present the major difficulty. Some morbid soul would insist on knowing what brought about the demise of supply-demand and would want to know all about details of the funeral arrangements.

Having contended that supply-demand is very much alive, it is appropriate that I furnish supporting evidence. This I shall do by drawing from factual experience and through choice of cases point up some of the dimensional complexities of the supply-demand concept. I think it important to be reminded occasionally that the interaction of supply and demand is not a simple process. Maybe this might cause us to exercise more restraint in using supply-demand. Especially when we team it up with the long-run to furnish solutions to all economic problems for which we do not have answers.

At one time I was associated quite closely with a segment of the produce industry in Florida. Keeping well informed about the economic affairs of one

particular commodity was my responsibility. These affairs were soon to experience a severe economic disturbance. A blasting freeze early in the winter shipping season wiped out the Florida crops. Shipments were reduced to supplies available from offshore sources only. Incidentally, these supplies were financed and marketed by Florida based growers-handlers.

With the first impact of reduced shipments, I noticed that the price zoomed upward and then a strange thing happened. The price soon reached a peak but then started sliding downward although shipments were also falling. And it wasn't a matter of poorer quality either. Unable to solve the riddle, I called one of the foremost handlers in the industry to see if he had an answer. He did--one amazingly simple but so obviously correct. He merely stated that he didn't have <u>anything else</u>, i.e., other produce <u>to sell</u>. We in economics call this kind of phenomenon <u>complementarity</u>. Briefly, the handler was saying that a more complete <u>line</u> to offer would have been beneficial pricewise to the several different commodities in the line. The commodities would complement each other. But there was another powerful economic force at work in this particular situation, i.e., product-factor complementarity. Particularly with the across-the-board short supply situation for fresh produce, buyers were reluctant to purchase an entire semitrailer load of any one particular vegetable. Therefore, available transportation could have been used more advantageously had a broader produce selection been available.

Those of you attending the conference who are students of supply management will immediately appreciate one of the lessons to be gotten from the experience. You are accustomed to the notion that reductions in supply increase price but not necessarily always income. But here we have a circumstance in which a falling supply did not automatically generate a price increase because more

powerful counteracting forces were in motion.

The fate of another popular vegetable crop that year also caused me to rethink some of the accepted dogma about supply management. Except for one tiny and lucky part of the production area, the entire winter planting was destroyed. The handful of producers in the area realized unbelievable prices and incomes. What's more, in terms of quality in the normal sense almost everything was eligible. One producer marveled that this was the first time in his life he had been able to load $5,000 worth of vegetable X on a flat-bodied truck at one time. Neighboring producers who had been literally wiped out managed to be philosophical about the whole thing and extended friendly congratulations to the fortunate few. Yet these same people would differ heatedly among themselves about the goodness or badness of Marketing Orders and their attendant regulations.

These two sets of behavioral patterns, accidentally thrust into unavoidable comparison, jarred loose an answer to a problem that had gone begging for a long time. The dignity of one of the favorite indicators of Market Order effectiveness, total industry income, was also ruffled a trifle. Market Orders, as we know, specify a set of contraints and prerogatives and extend the privilege to parties concerned to use them to do something about supply. This control machinery must be put into gear and steered to some workable consensus before any benefits can be realized. One would think that an industry would steer like the crow flies to a destination of consensus and reap the promised awaiting increased income, but it doesn't always work out that way. It's not that the income bit is viewed as some sort of fairy tale. The relation between freeze, supply, price and income has been experienced first hand, i.e., freeze reduces supply, increases price,

increases income. Also remembered is the grossly imbalanced differential impact on income. To pause here and note that the incidence of Marketing Order regulations on grower incomes also differs fulfills the question. Parenthetically, differences in quality levels and maturity dates for a crop among growers are among the main causes for income differences generated by regulations.

Producers can be philosophical about supply reductions and changes in income distribution brought on by acts of Providence. Nothing can be done about it anyway. But a right to a part in hammering out supply regulations effects an interesting transformation. How industry members fare relative to each other seems to become the thing of utmost importance without too much attention being given to total industry income. This inability to compromise is so often the quagmire in which Orders bog down and a useful kit of supply management tools sinks into disuse. Significant to the implementation or success of Orders, therefore, is the simple fact that with present values and attitudes producers in some sectors prefer submitting to the impersonal vagaries of uncontrolled output (and demand) rather than accept the differential proceeds from a managed supply necessarily requiring interpersonal compromise.

While it is so implicitly near in the discussion, it certainly would be remiss not to mention quality. No other dimension of supply-demand occupies such a position of sanctity. In trade circles it is spoken of with awe and reverence. Suppliers are constantly reminded of its all-in-allness. If they do their dead level best in furnishing quality, appropriate and just rewards will be theirs without asking. A glance at the other end of the supply-demand spectrum where quality perhaps enjoys a bit less protective mysticism will furnish some objective insights about it.

Some of my past colleagues and I were once conducting demand research at the retail level for specified items through the helpful cooperation of an important food chain. Part of the research involved keeping track of the sales of certain fresh produce items. Early summer is about the tail-end of the season for certain fruit from Florida and the spoilage rate can be high. I noted as much as 50 percent in one instance during the experiment. One member of the research team became quite perturbed about the quality image of a certain commodity and wondered why the produce manager did not discontinue handling and growers cease shipping the product. The store manager gave one compelling reason why not on the spot--he intended stocking the commodity as long as competing food retailers continued to do so. Actually, one could see that the quality problem was overstated from the consumer viewpoint because produce clerks did a thorough sorting and culling job before the product was displayed. Except for a shorter keeping ability, a wholesome product was being offered consumers. If not the consumer and not the retailer, who could have been deserving of this concern--the grower? They evidently thought not. They were not at all disposed to cut off shipments in face of such a lively demand and with prices at an all time seasonal high. From their faraway position in the system, produce discarded out the back doors of supermarkets just as effectively reduced disposable supplies as the good produce carried out the front doors and eaten at home by consumers. This is not meant to discredit quality but rather to illustrate the quantity rationing role of the quality factor in the supply-demand complex. It too has feet of clay like other members of the community of factors always modifying and reshaping supply.

Although the purist will attempt to argue otherwise, the notion of quality itself is seen to have an important time dimension, particularly for perishable

produce. At certain periods in the marketing season, losses through quality deterioration are minor while during other periods supply reduction for the same fruit or vegetable can be substantial. Moreover, from the economic view, quality is not a constant but a functional and is always relative depending on the what, where, when, how, and even who. Beauty, we are told, is in the eyes of the beholder.

The foregoing vignettes of economic reality should be sufficient to persuade us that the forces of supply-demand are busy and very much alive. It is ridiculous to think otherwise.

With your consent, I shall now endeavor to bring my remaining comments into better focus with the underlieing thought stream of this conference, i.e., the business of bargaining. Let me make it clear that I believe when you refer to bargaining you have in mind the establishment of economic equity in the market place. This being true you can see why I cannot endorse without reservation the sometimes implied unilateral flow of responsibilities in the economic scheme of things; or a similar hierarchical visualization. Nor am I suggesting that the market be epitomized as a collection of rivals. To me, emphasis on interdependences among participants in our economy and multilateral flows of responsibilities makes much more sense. For, willingness to bargain and unilateral behavior are incompatible.

Another notion that could stand closer questioning scrutiny than it frequently gets is the infallibility of market-determined prices, no matter how poorly informed the responsible participants. No one has ever been able to explain satisfactorily to me how the sum total effect of many uninformed guesses about supply and demand lead unerringly to the one and only true price. With possession of more or less facts, I suspect that price might well turn out to be

higher, the same, or lower without supply having changed one iota. It follows that the equitability of price, no matter how freely determined, cannot be guaranteed without abolishing ignorance in the market place.

A crying need for more market information usually exists even when buyers meet face to face and change of ownership takes place on the spot. Admittedly, reasonably sound production estimates at the farm level are kept current for most important farm products but matching requirements based on users' intentions and needs are nonexistent. The seeds of possible inequity, however, are sown far in advance of the day of marketing because of the lag of after-the-fact consumption behind production. Certain economic sectors outside agriculture have managed to overcome this problem after a fashion. Manufacturers of new household sundries, food items, etc., usually expend impressive sums toward testing the market acceptability of a product before launching a full-scale production and marketing program. Auto and other manufacturers with longer committed production cycles can control the flow from production lines in response to demand. But no such recourse is open to the farmer once the production process is in motion. He has only the options of harvesting or abandoning at the end of the season. It is at this juncture that feelings run highest for the farmer. Many are upset and rightfully concerned over the need for orderly marketing of and beneficial use of what is produced.

But is this concern possibly growing a bit out of focus? It is in my view. Real opportunities for achieving equity for agriculture will derive from progressive campaigns to root out and do away with trail and error marketing rather than continuing to accept it more or less resignedly. Certain campaigns will need to concentrate on improvement in market communications; others

on responsibility awareness and roles of all market participants. With the coming computer age, I cannot see why communications systems cannot be developed that will allow a more intelligent translation of future needs for agricultural produce into current production plans. I am thinking of a system of "advanced" or "forward" purchasing that would bring about timely coordination of all production and consumption stimuli. One that would apply to all nexuses of exchange in the marketing system--beginning perhaps with a comprehensive extension and refinement of the current nucleus of contracting in agriculture. The choice, as it were, would not be difficult between a well behaved "order and delivery" system and an uncertain sometimes lean and sometimes fat system of "cash and carry" now would it?

Before you become all broken up over the remoteness of this thing ever taking place, let me mention occurrences that cause me to think it may be already in the early stages of happening. To point our thinking in the same direction, may I suggest that selfishness doesn't have a one track mind. The same self interest, except for differently placed emphasis, motivates the urge to associate as that which prompts aggressive independent action. Countless trade and business associations attest to the need for gregariousness even in the competitive business community. It is true these organizations are concerned with tidying industry images and making their views known about legislative matter However, the predominate and most common function seems to be the collection and dissemination of news and facts and improving the exchange of knowledge within the industry in general. Enthusiasm for associating together and exchanging ideas at times leads to alliances among separate industry associations that apparently have only weak economic ties, if any whatsoever. Yet they hold joint

meetings and engage in extremely candid discussions about the affairs of their respective industries.

The increasing tendency to integrate, i.e., sequentially splice together marketing functions that were previously separate to me is another possible signal that we are drifting toward the increasingly sophisticated type of production-consumption system I have postulated. Integration may be brought into play primarily to shorten and open up channels of communications and thereby avoid certain hazards of uncertainty. The effect in this case could be more loss saving than cost saving and power extending inferred in the usual interpretation. This would seem to be particularly true if the integration were primarily vertically oriented and horizontal shares of product through-put among traditional marketing arrangements were not materially disturbed.

Let me go on to say that in some instances I think integration is a sort of marriage of convenience gone into mainly because it is a more comfortable and mutually attractive arrangement for conducting business affairs.

In case I did not do so, let me mention that my thoughts have been concerned with market improvements in the agricultural sector. I would not be nearly so speculatively optimistic about other less competitive sectors. Even for agriculture, bringing this perhaps "twilightish zone" concept of marketing into actual being will be long in coming and not easy. Solutions to many physical production uncertainties alone are still locked away in the technology of the future. But for openers, the notion might be used as a target to test the initiative and determination of those among you most dedicated to the establishment of equity in the market place; and, oh yes!--proper respect for supply and demand.

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